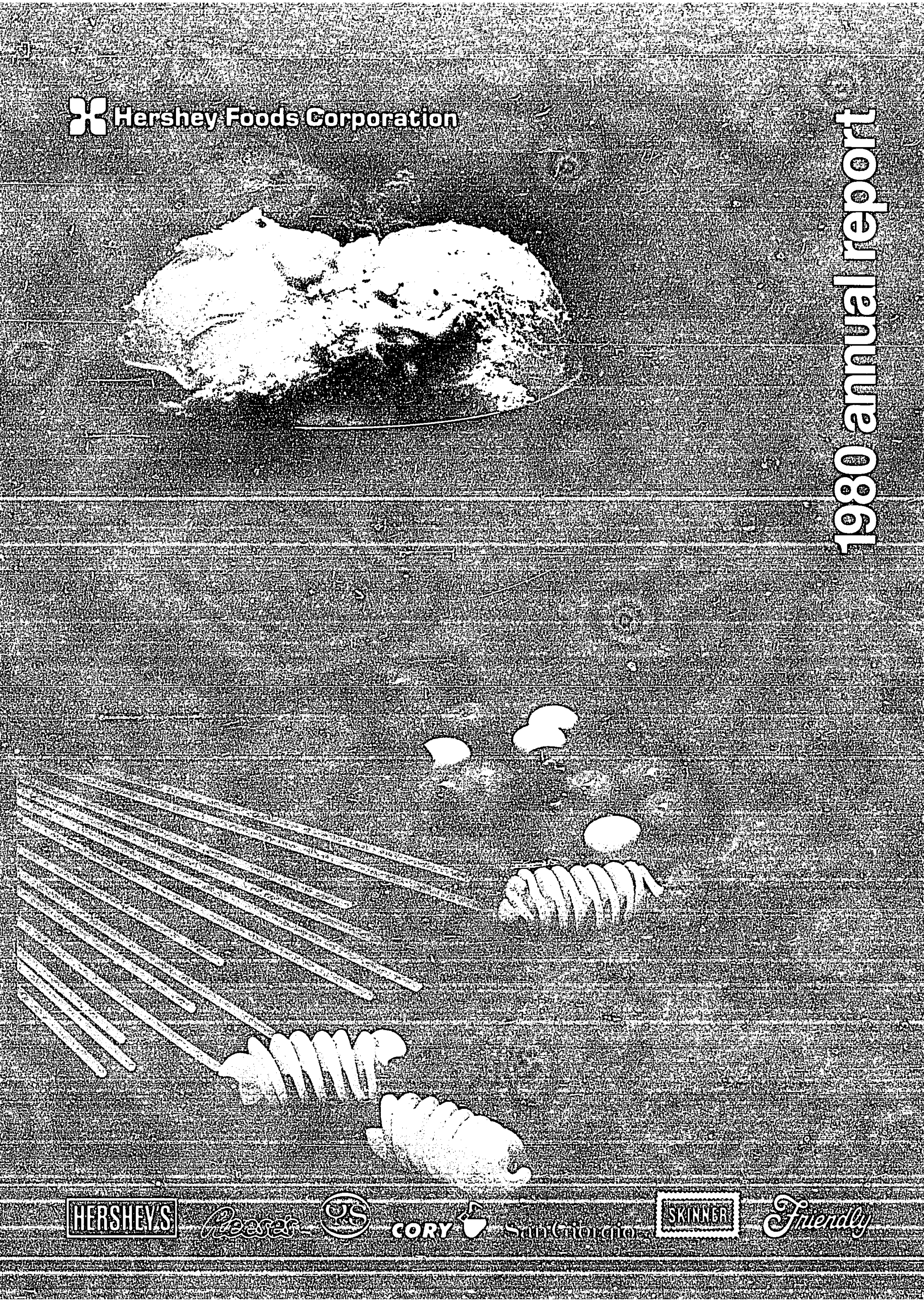
Hershey Foods Corporation
1980 annual report
HERSHEY'S
Reese's
CORY
San Giorgio
SKINNER
Friendly

1980 annual report

Hershey Foods Corporation

HERSHEY . . .
is a major producer of chocolate and confectionery products; operates a chain of restaurants; is a major producer of pasta products; and operates an office coffee service plan.

Hershey has chocolate and cocoa producing facilities in Hershey, Pa.; Oakdale, Calif.; and Smiths Falls, Ontario, Canada. In addition, the chocolate and confectionery segment includes the H. B. Reese Candy Company with its main production facility in Hershey, Pa., and Y & S Candies Inc., a manufacturer of licorice-type candies, with plants in Lancaster, Pa.; Moline, Ill.; Farmington, N.M.; and Montreal, Quebec, Canada.

Friendly Ice Cream Corporation, headquartered in Wilbraham, Mass., operates more than 625 restaurants located primarily in the Northeast and Midwest, which serve high quality, moderately-priced menu items and specialize in ice cream, sandwiches, and informal meals. The pasta division, with its San Giorgio, Skinner, Delmonico and P & R brands, has manufacturing facilities in Lebanon, Pa.; Omaha, Nebr.; and Louisville, Ky. Cory Food Services, Inc. is a Chicago-based provider of one of the nation's largest office coffee service plans.

The Corporation's principal executive offices are in Hershey, Pa. The Corporation had 12,430 full-time employees and 17,774 stockholders on December 31, 1980.

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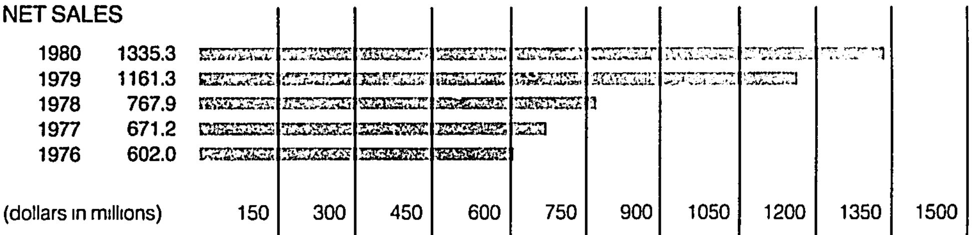
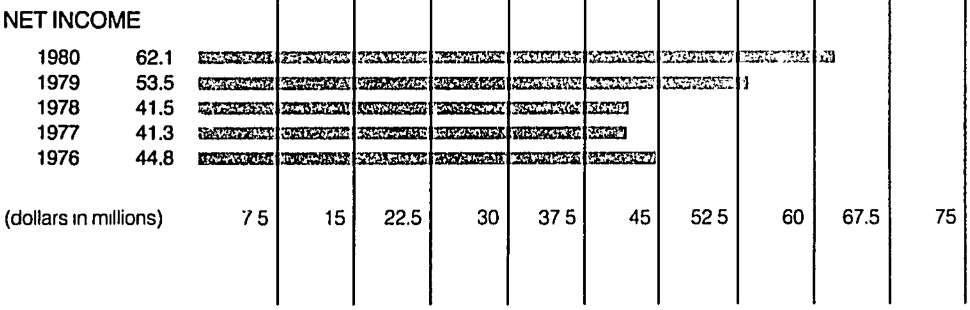
CONTENTS

1980 financial highlights

(in thousands of dollars except per share amounts)

	1980	1979	% Change
Net sales	**$1,335,289**	$1,161,295	+15
Net income	**$ 62,055**	$ 53,504	+16
Net income per common share	**$ 4.38**	$ 3.78	+16
Dividends per common share	**$ 1.50**	$ 1.35	+11
Cash dividends paid	**$ 21,240**	$ 19,107	+11
Capital additions	**$ 59,029**	$ 56,437	+ 5
Stockholders' equity	**$ 361,550**	$ 320,730	+13
Equity per common share at year end	**$ 25.53**	$ 22.65	+13
Outstanding common shares at year end	**14,159,854**	14,159,160	—





to our stockholders:

ACHIEVEMENTS OF 1980

We are pleased to report that 1980 was a year of major accomplishment for Hershey Foods Corporation. We achieved our goals, despite the uncertainty of the business environment. These achievements demonstrate the basic financial and managerial strengths of the Corporation which have enabled our major divisions to outperform the industries in which they operate.

- Sales were 15% greater than 1979's record setting pace.
- Net income and earnings per share increased by 16% over 1979's record earnings.
- The quarterly dividend rate was increased by 14% from $.35 to $.40 for an indicated annual rate of $1.60 per share. This was the sixth consecutive annual increase.
- Friendly Ice Cream Corporation and Skinner Macaroni Company were smoothly integrated into our corporate structure and made significant contributions to the growth of the Corporation.

Our major divisions experienced volume as well as dollar growth in 1980 with Hershey Chocolate Company leading the way. Most of Hershey Chocolate Company's excellent sales increase came from unit growth. This growth was significantly aided by strong consumer acceptance of several new confectionery products. The 1979 introductions of Whatchamacallit and Reese's Pieces were so successful that 1980 marked their roll-out to national distribution in the U.S. market. Effective marketing of traditional products also contributed significantly to the Company's unit volume increase.

Friendly Ice Cream Corporation also showed volume and dollar sales increases and outperformed the industry segment in which it competes. Growth in this division came from a modification program designed to generate additional sales in existing restaurants, effective marketing programs and new restaurant openings.

San Giorgio-Skinner, Inc. now distributes its pasta brands in 48 major markets in many parts of the United States and ranks number two in the industry in terms of market share of branded pasta products. A strong product mix, a foundation of established brands, solid market positions in the areas they cover and effective promotion and advertising all contributed to a record year.

Cory Food Services, Inc. and the International Division also contributed to the Corporation's progress toward a record year, while Hershey Canada's results were well below expectations.

1981 OUTLOOK

We believe that 1981 will be a most challenging year for the U.S. economic and political systems, and one fraught with domestic and international uncertainties. Inflation, high interest rates, high energy costs and unemployment are of great concern to all of us, both as producers and consumers. The solutions to these problems will be difficult to attain, but progress must be made.

The drought of 1980 is a cause for serious concern because of its impact on the nation's crops, and it remains to be seen how well the agricultural sector will be able to recover in 1981. While the drought caused concern regarding the availability of peanuts and durum wheat during the latter part of 1980, we believe that adequate supplies will be available to the Corporation in 1981.

Sugar prices remain well above their 1976–1979 levels. Cocoa bean prices recently have shown stability at more reasonable levels, although lower prices for this commodity may not offset the price increases in other commodities as well as the increased costs for packaging material, transportation and labor.

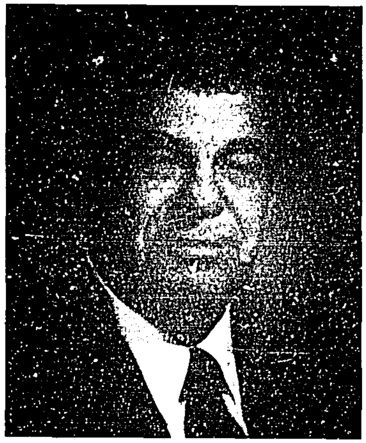
Experience has shown that effective management of commodity purchasing is a key element in the Corporation's performance. For this reason, the decision process

associated with our raw materials procurement takes place at the highest management level in the Corporation.

The Corporation has a strong balance sheet and is in a financially sound position. Our capital expenditures in 1980 were $59 million and will exceed that amount in 1981. These expenditures will increase our production capacity as well as enhance productivity. The largest element of the 1981 capital expenditure program is the new major confectionery plant now under construction in Stuarts Draft, Augusta County, Virginia. The cost of this new facility may require external financing.

Effective asset management is a continuing objective of the entire Corporation. Corporate and divisional/subsidiary management closely coordinated their efforts to further improve raw materials procurement, inventory levels, credit collection procedures and cash management techniques, all of which contributed to a lower level of working capital borrowings throughout the year. This, of course, lowered our interest cost without compromising customer requirements.

We are in a highly competitive business, but we firmly believe that the quality of our products and services coupled with our marketing abilities and financial strength will enable the Corporation to meet or surpass its growth objectives.



Harold S. Mohler

BEYOND 1981

In keeping with our strategic plan, we shall continue our drive to become a major, diversified, international food and food-related company. There are no shortcuts to reaching this goal; we must meet the challenges of tomorrow in a straightforward manner.

Those seeking short-term relief from business problems frequently advocate short-sighted solutions such as compromised quality, reduced marketing, decreased research and development expenses, deferred plant maintenance and improvement, or similar solutions. The philosophy underlying the Corporation's long-term strategic planning process discredits such solutions.

William E C Dearden

In order to maintain Hershey's quality over the long term, we have been required to raise prices from time to time. This step has always been taken in a manner that insures that the best possible value to the consumer has been preserved. At the same time, our stockholders' investment is enhanced in terms of immediate return, and the long-term growth potential of the enterprise is strengthened.

The net result has been the type of performance that leads to real growth. This growth has been characterized by increased unit volume for Hershey Chocolate Company, increased patronage and check size for Friendly restaurants and increased pasta tonnage for San Giorgio-Skinner. It has also been illustrated by an ability to acquire and integrate companies with similar growth potential. We have positioned ourselves to continue this growth.

A three-week strike occurred at Hershey Chocolate Company's main plant in November, but a settlement was reached which was agreeable to both parties. Though tested in 1980, the labor-management relationship throughout the Corporation is in a good state of health. We recognize the valuable contributions made by our employees during 1980 toward the accomplishment of our goals. We look to their continued dedication in vigorously confronting the challenges we face in carrying out our growth plans for 1981 and beyond. All of us recognize that a strong, growing company provides the opportunity for continuing employment, personal growth and development for employees at all levels.

Richard A Zimmerman

H. S. Mohler

Chairman of the Board

Vice Chairman of the Board
and Chief Executive Officer

President and Chief Operating Officer

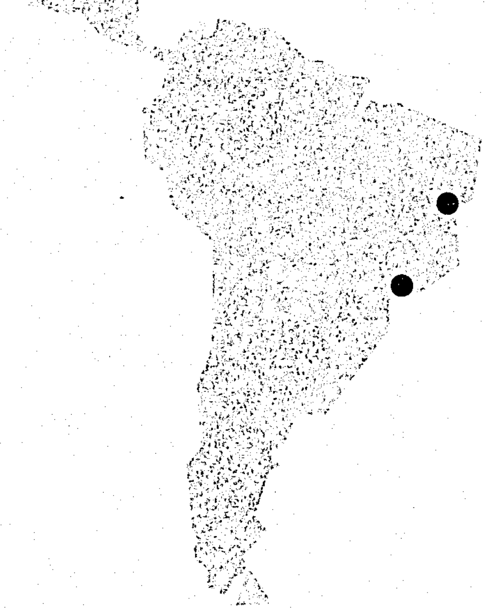
March 11, 1981

hershey at a glance

Although not yet a major worldwide force in the food industry, the Company continued its planned growth both at home and abroad in 1980. Hershey's strategies for becoming more of a major, diversified, international food and food related company are basically fourfold:

1. To capitalize on the considerable growth potential of our existing brands and products in current markets.
2. To introduce new products.
3. To expand the distribution of our long established, well known brands into new markets—domestic and foreign.
4. To make acquisitions and other types of alliances, both in the United States and elsewhere in the world.

Overall, business results, as discussed throughout this report, attest to how the Company's strategies are working. Over the last five years, Hershey has grown through periods of recession, inflation and stagflation. Today the primary bases of operation include the following.



● RESTAURANT OPERATIONS
Wilbraham, Massachusetts
Troy, Ohio
(manufacturing plants serving
more than 625 restaurants)

● CHOCOLATE AND CONFECTIONERY
Hershey, Pennsylvania
Oakdale, California
Smiths Falls, Ontario, Canada
Lancaster, Pennsylvania
Farmington, New Mexico
Moline, Illinois
Montreal, Quebec, Canada

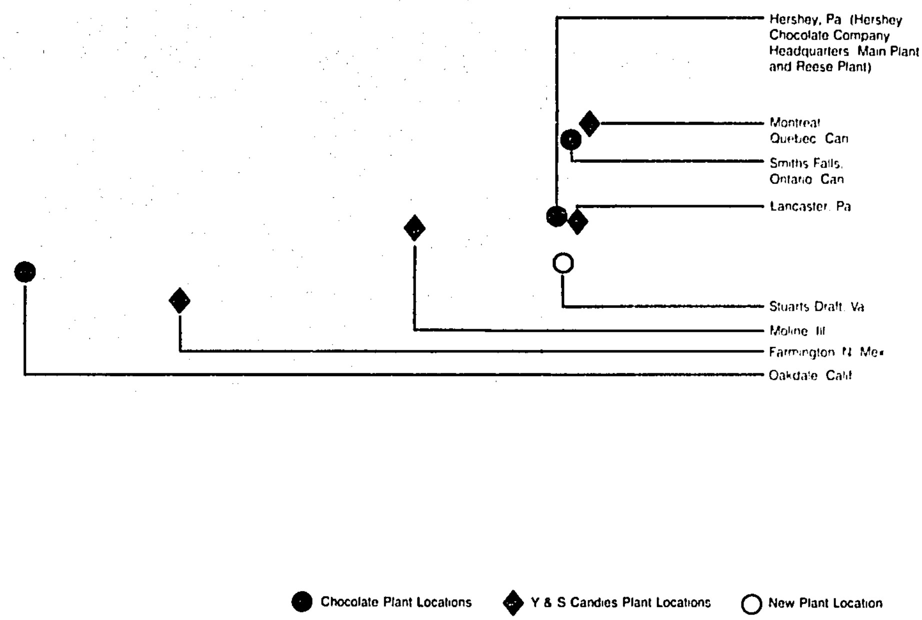
OTHER FOOD PRODUCTS AND SERVICES
Lebanon, Pennsylvania
Louisville, Kentucky
Omaha, Nebraska
Chicago, Illinois

● FOREIGN EQUITY INVESTMENTS
Guadalajara, Mexico
Salvador, Brazil
Sao Paulo, Brazil
Sundbyberg, Sweden

● FOREIGN LICENSING AGREEMENTS
Tokyo, Japan
Manila, Philippines

chocolate and confectionery

	1980	1979
Sales (in millions)	$929.9	$822.8
% Change	+13	
Operating profit (in millions)	$118.4	$ 99.9
% Change	+19	



HERSHEY CHOCOLATE COMPANY

The year 1980 marked another record performance by Hershey Chocolate Company. As a result of strong sales growth and improved profit margins, Hershey Chocolate Company's 1980 operating profit significantly exceeded last year's record level.

Sales surpassed 1979's record volume. This increase was predominantly a result of unit growth, since prices for the year were only slightly above 1979's level. The broad-based revenue gains in both established and new products reflected a program of increased selling and marketing expenditures during the past several years and the Company's continuing new product program.

Total costs continued their inflationary trend, although the average 1980 cost of cocoa beans, the major raw material, was lower than the record experienced in 1979. The reduced cost of cocoa beans is primarily attributable to several years of surplus crops and the replenishment of world inventories of cocoa stocks, which had been seriously depleted in the mid-1970's.

The cost of sugar increased dramatically in 1980, partially offsetting the benefits derived from reduced cocoa costs. The higher sugar costs resulted from increases in world consumption in the face of lower sugar production. Additionally, weather conditions and plant disease in several of the world's sugar growing areas adversely affected the sugar crop. The Company also experienced sharp rises in the cost of labor, energy and freight.

Unit sales gains and increased productivity, along with weight and minor price changes, enabled the Company to offset cost increases and obtain an improvement in net margins while continuing to comply with the voluntary guidelines of the former Council on Wage and Price Stability.

The nation experienced a very poor 1980 peanut crop, resulting from severe drought conditions in growing areas during the summer of 1980. The United States Department of Agriculture has forecast this crop to be approximately 40% less than the 1979 peanut crop. Although the poor peanut crop did not affect the operations of the Company in 1980, there is some concern about availability of adequate supplies in 1981. However, the Company expects to obtain its requirements.

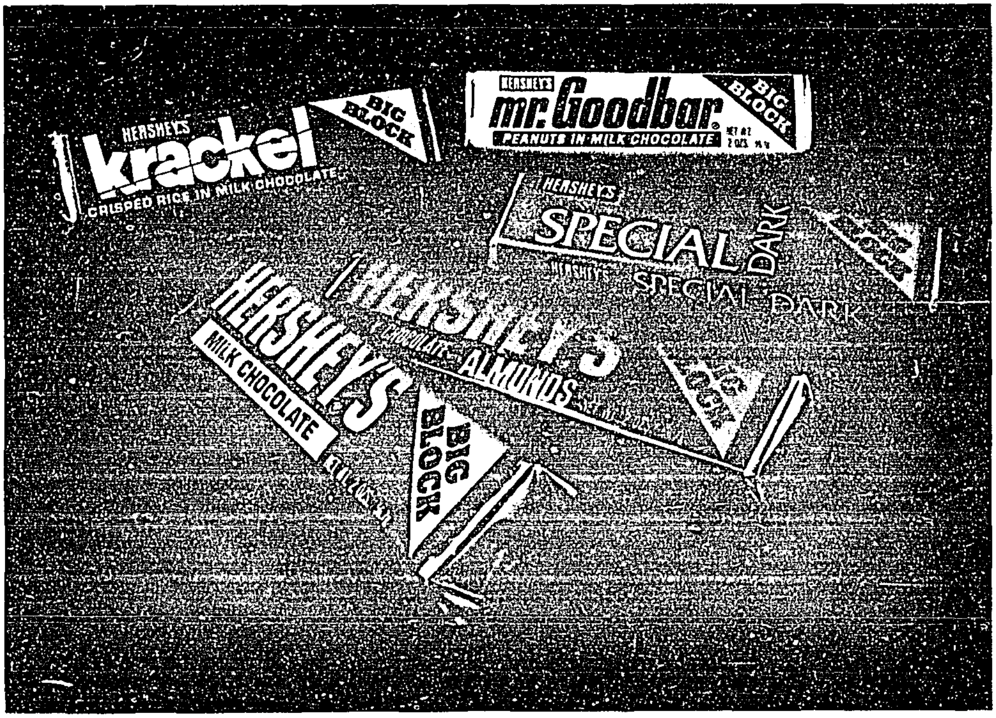
Hershey's long-term commitment to growth through new products resulted in new product sales performance 150% over that of last year. Two internally developed products, Whatchamacallit and Reese's Pieces, became major confectionery brands in 1980. Whatchamacallit, a chocolate covered peanut flavored crisped bar, achieved national distribution early in 1980 and during the year was ranked as one of the top candy bars in the United States. Reese's Pieces, natural peanut flavored candy coated pieces, are now in distribution in all of the country except the southcentral area. A number of other products are in various stages of development in accordance with the continuing objective of providing growth from new products.

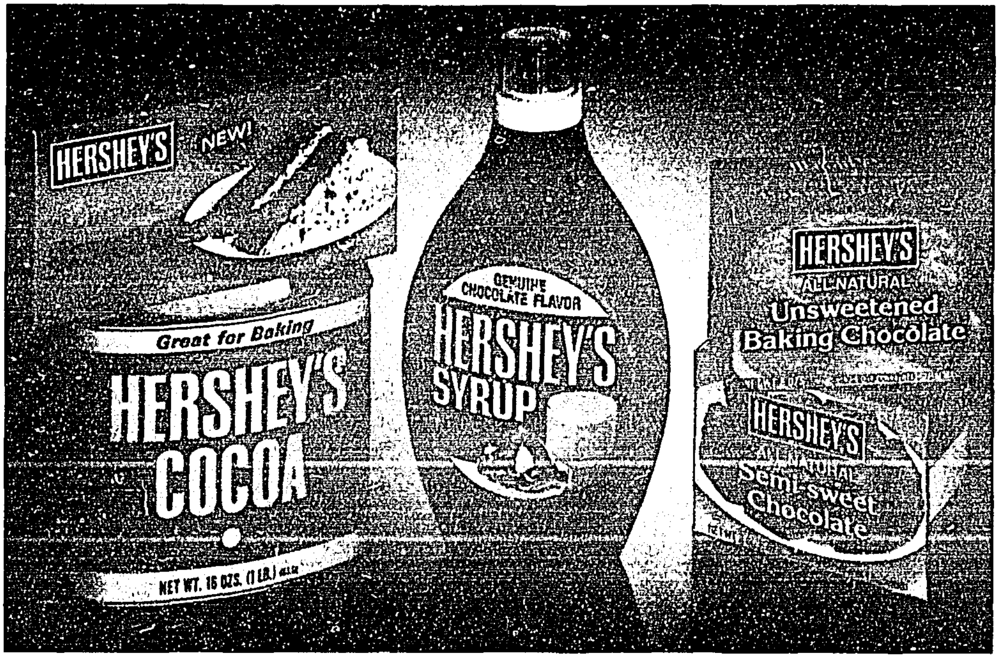
In addition to the success of new brands, the development and launching of new versions of established brands also contributed significantly to the record sales levels. Expansion to national distribution of Hershey's Syrup in a convenient plastic bottle was completed in the fourth quarter of 1979. The continued success of this innovative package raised this consumer favorite to a new level of sales and profitability.

A line of thicker "Big Block" bars, which retail for 50¢ in most areas of the country, was successfully tested during the first quarter of 1980 and introduced nationally during the third quarter. The introduction of Big Block and growth in the standard bar lines resulted in record high sales for each of the following brands: Hershey's Milk Chocolate, Hershey's Milk Chocolate with Almonds, Mr. Goodbar, Krackel, and Special Dark.

Hershey's Unsweetened Baking Chocolate was joined by two new varieties, Sweetened and Semi-Sweet Baking Chocolate, moving the Hershey franchise into new segments of this market. With redesigned packaging and a strong introductory promotional and advertising program, initial results from these actions are encouraging.

Growth from new products and new items was augmented by favorable results from the Company's line of licorice-type candy produced by Y&S. During 1980 an





advertising campaign for Y&S Twizzlers, which had been successfully test marketed in a limited area in 1979, was substantially expanded.

Sales of other established brands also enjoyed unit and dollar gains. For example, advertising support for Hershey's Kisses was expanded to include a special Christmas campaign on red, green and silver foil-wrapped Kisses. As a result of this effort and the continuation of other programs, Hershey's Kisses remain one of the fastest growing major brands in the confectionery industry.

Special market sales were up in total with significant gains in specialty confections. Excellent progress was made on the single bar version of Golden Almond. Sales of the Giant Hershey's Kiss quadrupled in 1980 as this item rapidly has become a favorite for gift-giving occasions. Initial success has come in the food service/industrial area as new bulk cocoa items, baking chips and a chocolate milk shake syrup have been introduced. Other products are in various stages of development to assure future growth in this market.

The success of new product development over the past several years has strained production capacity; thus, in 1980 the Company began construction of a 450,000 square foot plant in Stuarts Draft, Augusta County, Virginia. This major investment reflects a commitment to new product growth. It will not only improve productivity through the utilization of "state of the art" technology, but also will enhance the Company's ability to continue to bring new products into the marketplace of the 1980's.

Beginning November 1, 1980, the Company experienced a work stoppage at its main chocolate manufacturing facility in Hershey, Pennsylvania, in connection with labor negotiations with the Chocolate Workers labor union, Local 464. On November 23, 1980, the employees accepted and ratified a new, three-year labor contract, covering the period through October 31, 1983. The Hershey plant resumed operations November 24, 1980, and production quickly returned to normal levels.

HERSHEY CANADA

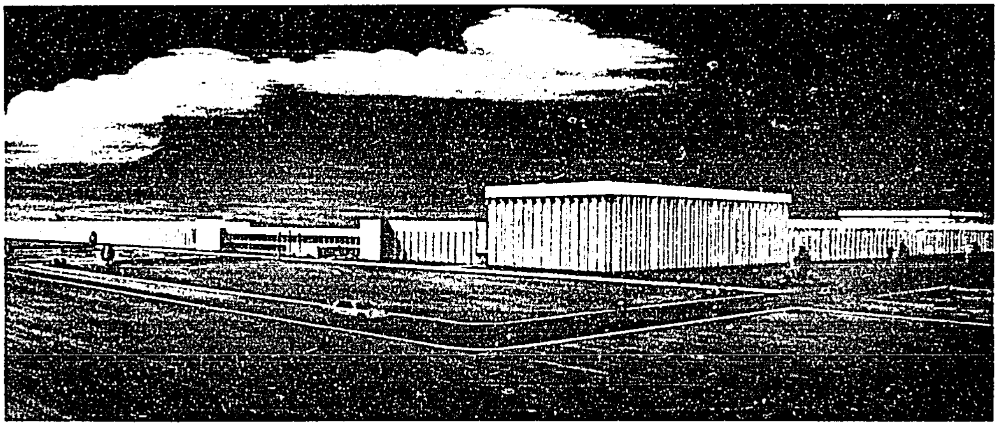
Hershey Canada achieved sales growth in 1980 despite a difficult market environment, but its results were well below expectations.

The Company experienced severe cost increases in most areas of operation during the year, and to offset higher costs, prices were increased on most of the Company's products. Price increases were also made by major competitors, and the higher level of retail prices throughout Canada, especially the move to a 35¢ standard candy bar, contributed to an overall static market performance.

Despite these problems, the Company experienced a number of market share increases and several successful new product introductions. Brown Cow, a chocolate syrup milk-modifier packaged in a plastic dispenser bottle, was the major introduction. This product was an immediate success and has quickly become one of the Company's major grocery brands. This was the first year of national marketing for Top Scotch, a butterscotch sundae topping successfully introduced in 1979.

Reese's Pieces were introduced nationally in September 1980, and two clear plastic bag packages of Y&S All Sorts were also introduced as an addition to the successful boxed All Sorts which were first introduced in 1979. In addition, it was the first year of national marketing for two new bar brands introduced in 1979—Special Crisp (the Canadian version of Whatchamacallit) and Reese's Crunchy Peanut Butter Cups.

Two major capital projects were undertaken by Hershey Canada during the year. The first project, completed in December 1980 at the Y&S plant in Montreal, involved a complete upgrading of facilities and the installation of additional production equipment. This will permit a significant improvement in production efficiency and capacity at this plant. The second project was a new peanut processing system installed at the Smiths Falls plant. Now operational, this new line will permit the Canadian company to meet its requirements for peanut-based ingredients.

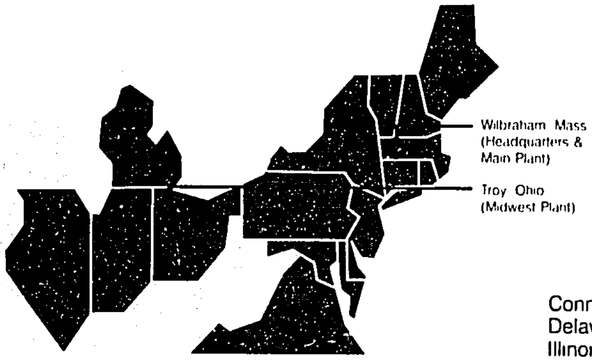


Artist's rendering of plant now under construction in Stuart's Draft, Va

restaurant operations

	1980	1979*
Sales (in millions)	$274.3	$224.1
% Change	+22	
Operating profit (in millions)	$ 25.6	$ 23.3
% Change	+10	

*11 months operations



	Number of Restaurants
Connecticut	73
Delaware	3
Illinois	4
Indiana	3
Maine	5
Maryland	23
Massachusetts	187
Michigan	9
New Hampshire	11
New Jersey	49
New York	123
Ohio	78
Pennsylvania	42
Rhode Island	5
Vermont	4
Virginia	9

FRIENDLY ICE CREAM CORPORATION

Friendly Ice Cream Corporation achieved record sales, record earnings and real growth in 1980 in an industry which was essentially static. Friendly's performance was particularly notable because it was achieved despite high unemployment in the Midwest, and the generally depressed economic conditions which tend to curtail away-from-home eating.

This growth came from Friendly's ongoing program of modifying older restaurants and opening new restaurants, as well as a successful series of summer ice cream promotions and the introduction of additional menu selections.

Significant capital investment for future growth was made through the restaurant modification program. This program, begun in 1977, upgrades Friendly's traditional restaurants where site location and size permit. This upgrading includes a combination of changes to the interior and exterior designs of the restaurants, an expanded menu and reorganized service systems.

The net effect of the enhanced attractiveness and capacity of a modified restaurant is to increase both the number of customers served and their average check size through additional purchases. On December 31, 1980, 351 restaurants had been modified as compared with 236 at the end of 1979. The modification program will be completed in the next few years with the conversion of most of the remaining ice cream and sandwich shops.

During 1980, twenty new restaurants were opened. Of these, fourteen were family restaurants which feature Friendly's broadest menu and generally have greater seating capacity. Friendly ended the year with 628 restaurants.

Aggressive marketing teamed with quality products in the form of several ice cream promotions gave mid-year sales a strong boost. In June half gallons were offered on a "buy one/get one at half price" basis. Similar formulas were applied to sherbet desserts in July and sundaes in August. The entire program was supported by television advertising. One measure of the campaign's effectiveness is the fact that Friendly produced twice as much ice cream in June, 1980 as it did in June, 1979.

In both the Midwest and New England, new menus were introduced by television advertising featuring several forms of ice cream incentives. These menus contain a broader selection of items, some of which are new to Friendly, and also have contributed to greater sales volume.

Operating margins were maintained in 1980 through menu price increases which offset significantly higher operating costs, particularly for sweeteners, dairy products and poultry.

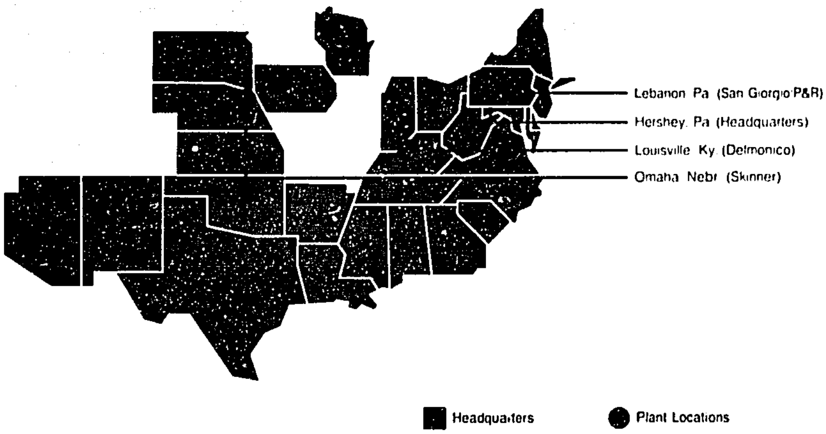
Friendly's latest family restaurant menu cover

A Friendly family restaurant manager trains two employees in platter preparation.

other food products and services

	1980	1979
Sales (in millions)	$131.1	$114.4
% Change	+15	
Operating profit* (in millions)	$ 6.5	$ 6.4
% Change	+2	

*Before a write-off of deferred location costs of Cory Food Services, Inc. in the amount of $1.4 million.

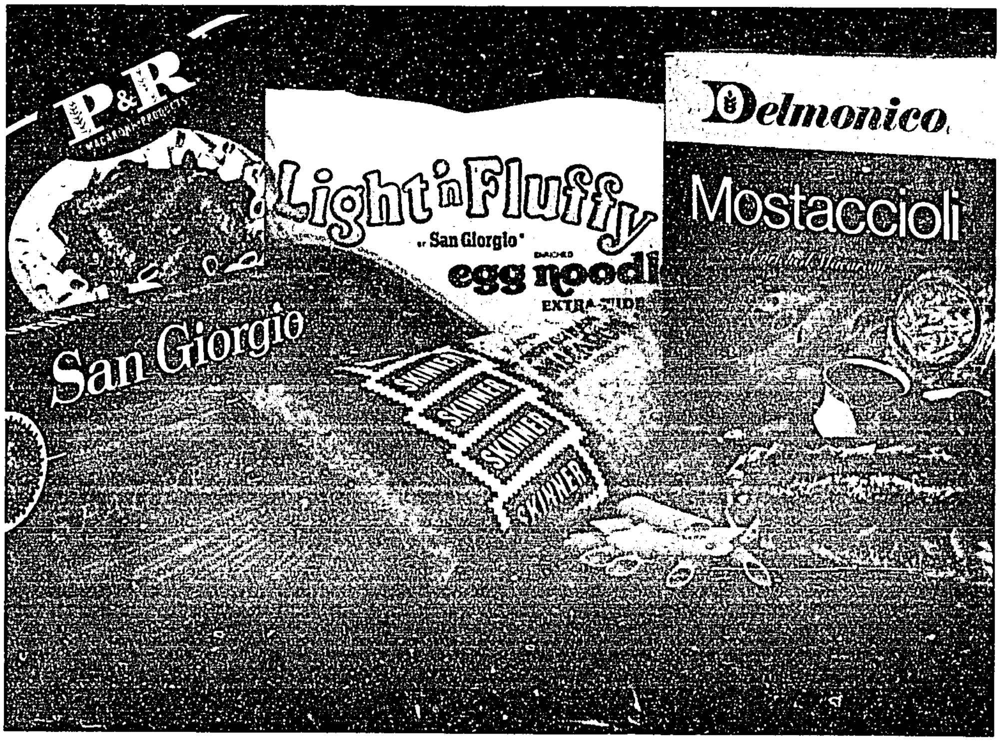


SAN GIORGIO-SKINNER, INC.

The highlight of 1980 was the successful combination of Hershey's pasta operations and the San Giorgio, Skinner, Delmonico and P&R brands into one entity known as San Giorgio-Skinner, Inc.The combined San Giorgio and Skinner brands enjoyed a sales increase in 1980 greater than any other brand in the industry, and the Company remained the second largest producer of branded pasta in the United States. Dollar sales and operating profit reached record levels for the year.

San Giorgio-Skinner quality products, backed by effective marketing programs, achieved new distribution in areas of Ohio, Indiana, Illinois, Iowa and Kansas during the year. These products are currently distributed in 48 major markets in many parts of the United States.

Manufacturing capacity was increased by 35 percent at the Louisville, Kentucky plant, and warehousing space was also expanded at this location. New warehousing space and additional flour storage capacity were added at the Omaha, Nebraska

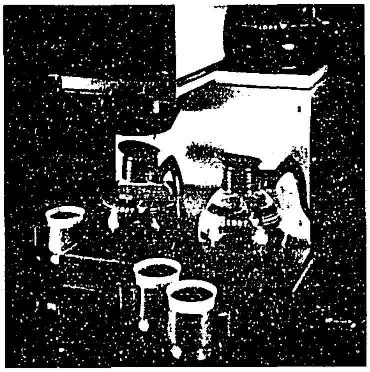


plant, and a new spaghetti production line was added to the Lebanon, Pennsylvania plant.

Semolina flour, the primary ingredient in quality pasta, is milled from durum wheat. The 1980 durum wheat crop suffered a series of reverses as a result of adverse weather conditions. Low moisture during the growing season reduced crop size. Later, rain during the harvest caused sprout damage, making some wheat unfit for use in pasta. As a result of the reduced amount of durum wheat suitable for pasta, costs rose well above the high levels of 1979, and this was reflected in higher consumer prices for pasta.

San Giorgio-Skinner is not dependent upon any one supplier for its flour supplies and does not anticipate difficulty in obtaining raw materials during 1981.

CORY FOOD SERVICES, INC.



Cory was profitable in 1980, but its growth was hampered by the depressed economy which led to cutbacks in office coffee use through layoffs and subsequent reduction in consumption. The unusually hot summer in many sections of the country had a further depressing effect on coffee consumption. As a result of these negative factors, Cory suffered an erosion of its customer base from 1979 levels and also a decrease in the number of coffee kits sold to its customers.

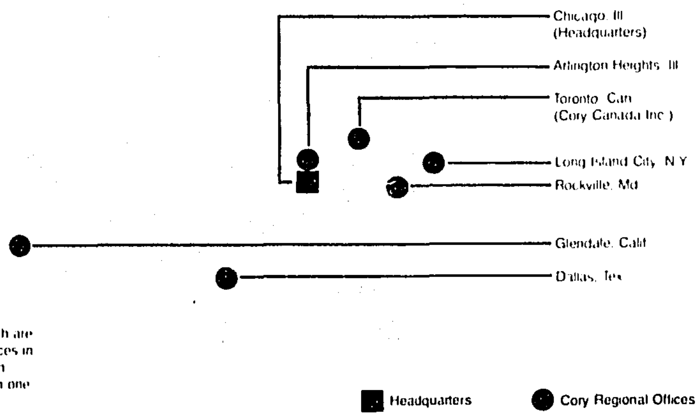
Green coffee bean prices, which had risen dramatically in 1979 because the crop was reduced by a damaging freeze in Brazil, remained at fairly high levels in the early part of 1980 despite a record crop. A group of coffee growers succeeded in supporting the price for some time, but eventually yielded to market forces. Green coffee prices then dropped to more reasonable levels in the latter part of the year; however, this decrease was somewhat offset by the dramatic rise in the price of the sugar which Cory supplies in its kits.

Cory's president resigned in September, and Ogden C. Johnson, the Corporation's Vice President of Science and Technology, assumed the additional responsibility of Acting President of Cory until a new president is selected.

Cory has introduced leased water treatment units as an adjunct to its coffee service. Compact refrigerator units and microwave ovens suited to office use have also been tested on a lease basis in several areas and will be expanded to others in 1981

Responding to the trend towards lower caffeine consumption, Cory Lite was introduced in selected areas in 1980. This new coffee with full taste and quality has only half the normal caffeine content. Expansion into more areas is planned for 1981.

The National Account Program, which provides coffee service to large companies on a national account basis, showed strong growth in 1980 and is expected to continue to be a major source of new customers.



Cory has 51 branch offices which are served through five regional offices in the United States and six branch offices which are served through one regional office in Canada

diversification and development

INTERNATIONAL

Hershey's international operations were profitable in 1980. In-country sales and earnings of affiliated companies increased over the previous year. The results of the Brazilian affiliates lagged behind U.S. dollar expectations, however, because of Brazil's major cruzeiro devaluation in December 1979 and the continued decline of this currency in relation to the U.S. dollar in 1980.

In Mexico, Nacional de Dulces began construction of its new plant in Guadalajara. Relocation of the plant and equipment is now in progress. Sales increased substantially over 1979, but 1980 earnings were slightly behind last year because of relocation costs and the costs of financing construction.

Petybon and Codipra, Hershey's two joint venture companies with the Matarazzo Group in Brazil, showed progress in cruzeiro sales and earnings, and improved market position in the biscuit and pasta categories as well. Chadler Industrial da Bahia also continued to develop its business despite lower prices for export sales of its commodity products and the continued cruzeiro devaluation. During the year, Chadler completed a plant expansion project which provides additional production capacity.

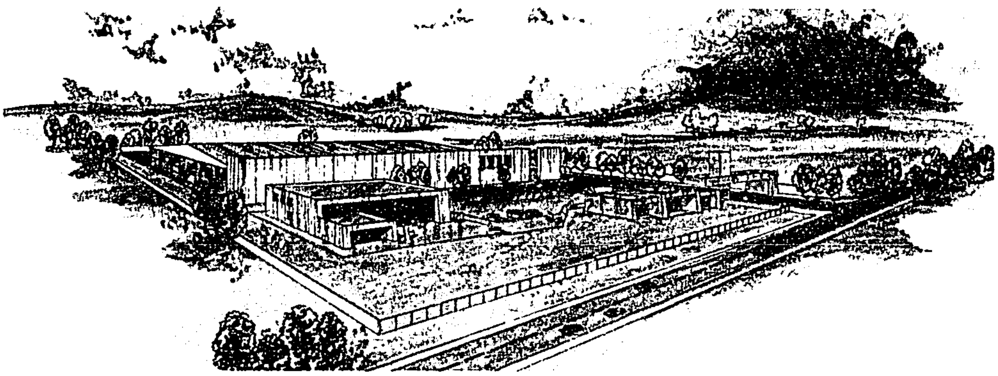
In May 1980, Hershey announced the formation of a partnership with Industrias de Chocolate Lacta S.A. of Sao Paulo, Brazil, to explore jointly certain industrial and marketing projects in the chocolate and confectionery field. The new venture does not involve any direct equity participation by Hershey in Lacta, Brazil's leading chocolate and confectionery company.

In Sweden, AB Marabou contributed to Hershey's earnings in 1980 despite a somewhat difficult economic situation and adverse changes in sales taxes applied to chocolate and confectionery products. Overall, Marabou continues to maintain a strong position in its various markets.

Hershey's trademark, know-how and technical assistance licensing agreements with Philippine Cocoa Corporation were revised, approved by the Philippine government and implemented during the year. Hershey's is a well-known brand in the Philippines, and this new venture offers good potential for future development.

Export sales and earnings also expanded considerably in comparison with 1979 with Fujiya Confectionery Company of Japan leading the way. Through local market investigations and the development of a high calibre importer/distributor network, a solid basis has been created for the Corporation's export expansion program.

While the International Division's contributions to the Corporation's earnings are still relatively modest, a base is being established for a significant international presence in the future. Hershey continues to explore new market entry opportunities and new business associations throughout the world.



SCIENCE AND TECHNOLOGY

In 1980 the Science and Technology Department completed its first year in the Technical Center, and this resulted in benefits in new product and process development, as well as the evaluation of new concepts and ingredients through extensive pilot plant programs.

The Corporate Engineering Group concentrated its 1980 efforts on capital projects including the new manufacturing facility in Stuarts Draft, Augusta County, Virginia; the warehouse and production expansion at the Delmonico plant of San Giorgio-Skinner; a modernization of the Y&S plant in Montreal; and the new Nacional de Dulces plant at Guadalajara, Mexico. Also, renovation of the former Hershey Community Center building into a new corporate administrative office complex was begun.

Research and development activities expanded significantly in 1980. A variety of new Hershey Chocolate Company products are under development for the International Division in response to market research in various foreign markets. The success of products such as Whatchamacallit and Reese's Pieces in the United States has encouraged further research and development of related product concepts for both domestic and international use.

The Corporation maintains ongoing research programs in the areas of nutrition, microbiology and physiology. The Corporation has become a recognized authority in a number of areas related to food, particularly in the confectionery field. Continued growth of these capabilities within the Science and Technology Group will assure the Corporation a highly credible scientific position in dealing with regulatory agencies and the scientific community.

EXECUTIVE CHANGES

On August 1, Kenneth L. Wolfe, formerly Treasurer of the Corporation, was named Vice President, Finance and Administration, Hershey Chocolate Company. William Lehr, Jr., Secretary of the Corporation and Associate Counsel, was named to the additional position of Treasurer of the Corporation.

On September 1, Dr. Ogden C. Johnson, Vice President, Science and Technology, was named Acting President of Cory Food Services, Inc.

On January 1, 1981, James D. Staggs, President and Chief Operating Officer of Friendly Ice Cream Corporation, became Vice Chairman of the Board and Chief Executive Officer of Friendly. John F. Cauley, Executive Vice President of Friendly, became President and Chief Operating Officer. The appointments were made by Robert J. Gaudrault, Chairman of the Board and former Chief Executive Officer, to permit a smooth transition of responsibilities in advance of his own retirement in early 1982.

(Left)
Artist's rendering of Nacional de Dulces chocolate and confectionery plant in Guadalajara, Mexico.

investor information

STOCK MARKET DATA

Hershey Foods Corporation had 17,774 stockholders at year-end 1980, with a total of 14,159,854 common shares outstanding. There is no other class of stock outstanding.

The common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 1,500,000 shares of the Company's common stock were traded on the Exchange during 1980, or approximately 21% of the listed shares available. The closing price of the common stock on the New York Stock Exchange on December 31, 1980 was $23.50.

The Company's common stock price range and dividends per share by quarter for the last two years appear on page 26.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE

Stockholders may take advantage of an automatic dividend reinvestment service offered through Manufacturers Hanover Trust Company. Quarterly common stock dividends are automatically reinvested in Hershey common stock, and optional cash investments may be made for the purchase of additional shares. A brochure describing this service is available from the Company's Investor Relations Department in Hershey and from the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P O Box 24850, Church Street Station, New York, N.Y. 10242

INVESTOR SERVICES

The Corporation has an Investor Relations function in Hershey. Requests for interim and annual reports, or for more information about the Company, should be directed to the Investor Relations Department, One East Chocolate Avenue, Hershey, Pa. 17033.

Other information available to stockholders upon request includes·

- "Hershey Foods Corporation, A Profile"—a booklet of facts about the Corporation
- "Wherever You Go, Go Someplace Friendly"—a directory of Friendly restaurant locations.
- "Hershey's National Track & Field Youth Program"—a booklet designed primarily for the recruitment of new communities into the program
- Packet of leaflets—a selection of leaflets dealing with nutrition, health and safety in relation to the products of the Hershey Chocolate Company.
- Pack of recipes—a selection of small booklets containing chocolate, cocoa and pasta recipes plus cooking and baking hints, including some on microwave applications.
- White papers—two brief discourses, one entitled "Remember the Nickel Bar?" that deals with chocolate bar price and weight changes over the years, and one entitled "Chocolate: Real or Unreal" that includes a glossary of chocolate and chocolate-related terms.

ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting will be held at 2 p.m. on Monday, April 27, 1981, at the Hershey Lodge and Convention Center, Route 322 and University Drive, in Hershey, Pa.

A formal notice of this meeting, together with a proxy statement, is being mailed to stockholders on or about March 11, 1981.

Stockholders who are unable to attend the meeting are urged to mark, sign, date and return their proxy card promptly so the stock of the Corporation will be represented as fully as possible at the meeting.

FORM 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to the Secretary of the Corporation, 100 Mansion Road East, Hershey, Pa. 17033

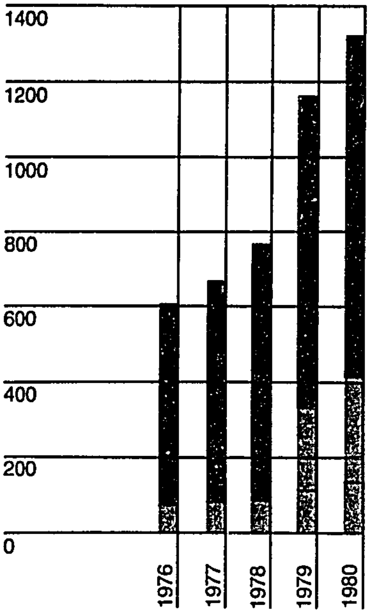
PRINCIPAL SECURITIES MARKET

The common stock is listed on the New York Stock Exchange.

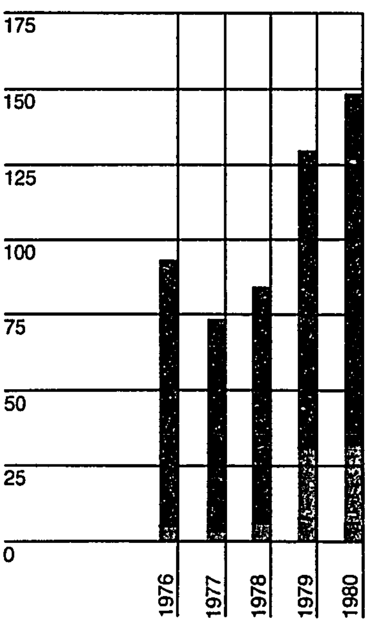
financial review

CONTENTS

NET SALES BY
INDUSTRY SEGMENT
(dollars in millions)



OPERATING PROFIT
BY INDUSTRY SEGMENT
(dollars in millions)



Chocolate and Confectionary

Restaurant Operations

Other Food Products & Services

INDUSTRY SEGMENT INFORMATION

The Company operates in three industry segments: Chocolate and Confectionery, Restaurant Operations and Other Food Products and Services. Operations in the Chocolate and Confectionery segment involve manufacture and sale of a full line of chocolate and confectionery products. The principal product groups sold are bar goods, bagged items, baking ingredients, chocolate drink mixes and dessert toppings. The Restaurant Operations segment is engaged in the operation of more than 625 restaurants and the manufacture of certain items sold in those restaurants. The Other Food Products and Services segment is involved in the manufacture and sale of pasta products and the operation of a coffee service plan for businesses and institutions.

Sales by segment as reported in the Company's Consolidated Statements of Income and Retained Earnings do not include intersegment sales since such sales are immaterial.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been included: general corporate expenses, interest income (expense)—net, or income taxes.

Identifiable assets are those assets that are used in the Company's operations in each segment. Corporate assets are principally cash, marketable securities, and corporate property and equipment.

No customer, government or other entity constitutes 10% or more of sales. Foreign sales and assets constitute less than 10% of total sales and assets.

For the Years Ended December 31 (in thousands of dollars)

	1980	1979	1978	1977	1976
Net sales:					
Chocolate and Confectionery	**$ 929,885**	$ 822,813	$678,652	$586,882	$526,822
Restaurant Operations	**274,297**	224,072	—	—	—
Other Food Products and Services	**131,107**	114,410	89,228	84,345	75,138
Total net sales	**$1,335,289**	$1,161,295	$767,880	$671,227	$601,960
Operating profit:					
Chocolate and Confectionery	**$ 118,435**	$ 99,880	$ 79,143	$ 69,834	$ 86,898
Restaurant Operations	**25,567**	23,322	—	—	—
Other Food Products and Services	**5,148** [a]	6,397	5,061	4,528	5,005
Total operating profit	**149,150**	129,599	84,204	74,362	91,903
General corporate expenses	**(10,190)**	(7,742)	(4,981)	(3,491)	(2,299)
Interest income (expense)—net	**(14,100)**	(17,764)	2,683	509	(357)
Income from continuing operations	**124,860**	104,093	81,906	71,380	89,247
Less:					
Income taxes	**62,805**	50,589	40,450	35,349	45,562
Discontinued operations	**—**	—	—	(5,300)	(1,112)
Net income	**$ 62,055**	$ 53,504	$ 41,456	$ 41,331	$ 44,797
Identifiable assets:					
Chocolate and Confectionery	**$ 333,232**	$ 297,296	$241,070	$221,928	$222,541
Restaurant Operations	**219,196**	207,125	—	—	—
Other Food Products and Services	**62,553**	63,886	50,450	47,023	44,325
Corporate	**69,491**	38,892	130,484	127,202	65,004
Total identifiable assets	**$ 684,472**	$ 607,199	$422,004	$396,153	$331,870
Depreciation:					
Chocolate and Confectionery	**$ 8,469**	$ 7,389	$ 6,574	$ 5,702	$ 5,439
Restaurant Operations	**13,015**	10,283	—	—	—
Other Food Products and Services	**2,671**	2,185	1,720	1,789	1,755
Corporate	**741**	658	556	504	345
Total depreciation	**$ 24,896**	$ 20,515	$ 8,850	$ 7,995	$ 7,539
Capital additions:					
Chocolate and Confectionery	**$ 27,061**	$ 29,472	$ 26,586	$ 22,381	$ 17,227
Restaurant Operations	**24,468**	20,965	—	—	—
Other Food Products and Services	**6,141**	2,233	4,420	3,014	1,754
Corporate	**1,359**	3,767	6,419	2,140	1,741
Total capital additions	**$ 59,029**	$ 56,437	$ 37,425	$ 27,535	$ 20,722

[a] After a write-off of deferred location costs of Cory Food Services, Inc. in the amount of $1.4 million

SELECTED FINANCIAL DATA

For the Years Ended December 31

(in thousands of dollars, except per share amounts)	1980	1979	1978	1977	1976
Net sales	**$1,335,289**	$1,161,295	$767,880	$671,227	$601,960
Income from continuing operations	**$ 62,055**	$ 53,504	$ 41,456	$ 36,031	$ 43,685
Income from discontinued operations	**—**	—	—	—	$ 1,112 [a]
Gain on disposal of discontinued operations	**—**	—	—	$ 5,300 [a]	—
Net income	**$ 62,055**	$ 53,504	$ 41,456	$ 41,331 [b]	$ 44,797
Income per common share:					
Income from continuing operations	**$ 4.38**	$ 3.78	$ 3.02	$ 2.62	$ 3.18
Discontinued operations	**—**	—	—	—	$ .08 [a]
Gain on disposal	**—**	—	—	$ .39 [a]	—
Net income	**$ 4.38**	$ 3.78	$ 3.02	$ 3.01 [b]	$ 3.26
Cash dividends per common share	**$ 1.50**	$ 1.35	$ 1.225	$ 1.14	$ 1.03
Total assets	**$ 684,472**	$ 607,199	$422,004	$396,153	$331,870
Long-term debt and lease obligations	**$ 158,758**	$ 143,700	$ 35,540	$ 29,440	$ 29,440
Average number of common shares and equivalents outstanding during the year (in thousands)	**14,160**	14,153	13,742	13,722	13,720

[a] On June 30, 1977 the Company's almond ranch subsidiary was sold resulting in a $5 3 million gain The results of those operations for the first six months of 1977 were immaterial and have been included in continuing operations, with results from operations excluded from the prior year.

[b] During 1977 the Company reduced LIFO inventory quantities These liquidations increased net income by approximately $4 million or $.29 per share

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following comments relate to the current three year comparative results of operations and should be read in conjunction with the industry segment information presented on pages 18 and 19.

RESULTS OF OPERATIONS

Consolidated net sales increased 15% in 1980, 51% in 1979 and 14% in 1978 or a total of 99% for the three year period.

The Chocolate and Confectionery segment was the major contributor to this net sales growth, accounting for 61% or $107.1 million of the 1980 increase for a segment growth of 13%; 37% or $144.2 million of the 1979 increase for a segment growth of 21%; and 95% of the 1978 total net sales increase. In each of the three years, both unit volume and higher prices contributed to the Chocolate and Confectionery segment sales increase with higher prices

accounting for the major portion in 1978 and 1979 while growth in unit volume accounted for the majority of the increase in 1980.

Friendly Ice Cream Corporation was acquired in January 1979 and its eleven months' sales for 1979 amounted to $224.1 million or 57% of the total net sales increase over 1978. Friendly contributed 29% of the total 1980 net sales increase or $50.2 million for a segment growth of 22%. Of this increase, $16.3 million represents January 1980 net sales with the remaining increase the result of increased volume and menu prices.

Although the Other Food Products and Services segment accounted for only 10% of the 1980 total net sales increase or $16.7 million, the segment growth is 15% over 1979 with higher selling prices accounting for most of this increase. This segment contributed 6% of the 1979 total net sales increase or $25.2 million for a segment growth of 28% over 1978, aided primarily by the 1979 acquisition of Skinner Macaroni Company. This segment experienced a 6% growth in net sales in 1978 or approximately 5% of the total net sales growth.

The increase in net income was 16% in 1980 and 29% in 1979. The increase in income from continuing operations in 1978 was 15% while net income increased less than 1% because of the inclusion in 1977 of a $5.3 million gain on the disposal of a discontinued operation.

In 1980 cost of sales as a percentage of net sales amounted to 72 8% compared with 73.6% in 1979. Net interest expense decreased 20.6% in 1980 compared with 1979, reflecting reduced levels of short-term borrowings. The increase in net income of 16% is attributable to the increased sales, improved gross profit margin percentages and lower net interest expense partially offset by a higher effective income tax rate. (See Note 2 on page 32).

In 1979 cost of sales as a percentage of net sales increased to 73.6% from 72.9% in 1978 reflecting the inclusion of the 1979 acquisitions. Net interest expense of $17.8 million was incurred in 1979 versus net interest income of $2.7 million in 1978. This is attributable to the liquidation of the Company's short-term investments and the issuance in March 1979 of $75 million of 9½% Sinking Fund Debentures both of which were used to finance the Friendly acquisition as well as the debt assumed from Friendly. The increase in net income of 29% reflects the increased earnings of the existing businesses and the results of the Friendly and Skinner acquisitions.

Cost of sales as a percentage of net sales in 1978 remained approximately the same as the prior year amount of 73%. Although raw material costs, principally cocoa beans, remained substantially higher than previous years, price increases in late 1977 and 1978 enabled the Company to offset these higher costs. The increase in income from continuing operations of 15% is the result of increased sales, stable gross profit margin percentages and additional interest income compared with 1977 because of an improved cash position.

LIQUIDITY

Generally, the Company has been able to finance its annual working capital requirements through funds generated from normal business operations. However, at certain times during the year the Company has seasonal working capital needs which exceed funds generated from normal operations and, therefore, require interim financing. These needs are met by issuing commercial paper and/or borrowing under bank lines of credit. Typically, the Company's seasonal needs for working capital peak during the summer months and the short-term borrowings are repaid in the fall

In 1978 the Company's working capital requirements were met entirely through the use of internally generated funds. At year-end, working capital was $142.2 million. In 1979 the Company used its short-term investments to finance, in part, the Friendly Ice Cream Corporation acquisition. Therefore, it was necessary to borrow on a short-term basis for seasonal working capital requirements. These short-term borrowings were repaid during the fall; the short-term investment position, however, was not restored to the year-end 1978 level. As a result, working capital at December 31, 1979 declined from the previous year to $66.4 million. In 1980 the Company again borrowed on a short-term basis to fund seasonal working capital requirements, but to a lesser extent than 1979. The increase in working capital to $109.7 million at December

31, 1980 is attributable to the higher income level which is reflected principally in an increase in the Company's cash and short-term investment position.

The Company's accounts receivable generally have increased year-to-year in dollar terms reflecting sales growth. However, accounts receivable as a percentage of sales declined in 1979 as compared with 1978, primarily because of the inclusion of Friendly's sales and the absence of accounts receivable in that industry. The 1979 decline also is attributable to collection results which exceeded past experience. In 1980 accounts receivable as a percentage of sales increased slightly from 1979.

The Company's inventory increased in 1979 over 1978 in absolute dollars and as a percentage of sales principally as a result of the consolidation of Friendly's inventory in 1979 and the decision to increase inventories of the Chocolate and Confectionery segment in anticipation of higher sales. Inventory in absolute dollars increased only slightly in 1980 over 1979.

The ratio of current assets to current liabilities was 2.0:1 at December 31, 1980, as compared with 1.6:1 in 1979. In 1978 the current ratio was 2.9:1. The cash acquisition of Friendly in 1979 was the primary reason for the 1979 decline in the current ratio. The results of operations combined with the absence of major capital projects have improved the current ratio in 1980.

At December 31, 1980, the Company's unused sources of funds consisted principally of approximately $49 million of cash and short-term investments and $150 million of currently available borrowing under its bank lines of credit which may be used to support the issuance of commercial paper. The Company does not anticipate a material change in the nature of its normal operating and its seasonal working capital needs.

CAPITAL RESOURCES

Although in the past the Company has met its capital expenditure requirements from internally generated funds, from time to time it has supplemented these sources by using various long-term financing arrangements for major investment opportunities. In 1979 a portion of the acquisition of Friendly was financed by the issuance of $75 million of 9½% Sinking Fund Debentures due 2009. In 1980 the Company issued $15 million of 10¾% Promissory Notes due 1983 through a private placement to finance, on an interim basis, the construction of a technical center and the purchase and renovation of an administrative office building in Hershey.

At December 31, 1980, the Company's major commitment for capital expenditures was for the construction of a major chocolate and confectionery manufacturing facility in Stuarts Draft, Augusta County, Virginia. The cost of land, building and basic equipment is anticipated to be $75 million. Additional product lines are being contemplated and, if authorized, could increase the cost approximately $25 to $40 million. Expenditures through December 31, 1980 have amounted to about $6.5 million for this facility which is expected to be operational in late 1982. Although cash flow from operations is expected to contribute substantially to meeting the Company's capital requirements, additional sources of financing may be necessary. Accordingly, the Company is considering various external financing alternatives.

The Company's ratio of long-term debt to long-term debt plus total stockholders' equity increased from 11.1% in 1978 to 30.9% in 1979, principally because of the financing of the Friendly acquisition and the assumption of its debt, and declined slightly in 1980 to 30.5%. The Company's long-term indebtedness increased 10.5% over the level at December 31, 1979; stockholders' equity increased 12.7% over the same period. The present level of indebtedness combined with existing liquidity and available credit resources places the Company in a position to continue to finance its growth and to take advantage of additional opportunities that may become available.

For information with respect to the effect of changing prices reference is made to pages 23 and 24.

SUPPLEMENTARY INFORMATION REGARDING THE EFFECTS OF CHANGING PRICES (unaudited)

The Company's consolidated financial statements are prepared based upon the historical prices in effect when the transactions occurred. The following supplementary information reflects certain effects of inflation upon the Company's operations in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices", issued by the Financial Accounting Standards Board. The Company believes that the supplementary information included herein must be viewed with caution as it involves the use of assumptions, approximations and estimates. Consequently, the information may not be a precise indicator of the effects of inflation nor necessarily comparable with other companies within the same industry

The effects of inflation on income have been measured in two ways as described below and presented in the following statements. The first method, constant dollar, measures the effect of general inflation determined by using the 1980 average Consumer Price Index for all Urban Consumers to recompute results of operations.

The second measurement, current cost, is more specific in that it measures inflation by recomputing results of operations using the current cost of inventory and property, plant and equipment rather than the historical cost of such assets.

Current costs of property, plant and equipment were developed from external price indices, quotations or similar measurements. While depreciation expense increased under both methods, reflecting the effects of inflation, the accompanying statement shows that the Company's specific cost of property, plant and equipment and inventories has slightly exceeded the general inflation rate. Both methods assume that property, plant and equipment would be replaced as they currently exist. However, the Company will avail itself of the latest technological improvements when actual replacement occurs.

The adjustment to cost of sales is not significant as substantial portions of inventories in the historical financial statements are stated at LIFO cost. Under LIFO cost, current costs are included in cost of sales in the historical financial statements.

The statement shows that the historical effective income tax rate for 1980 of 50.3% increases substantially under both methods since U S. tax regulations do not provide for a current tax deduction for these inflation adjustments.

The gain from decline of purchasing power of net amounts owed set forth in the following schedule presents the Company's gain from holding more monetary liabilities (requiring fixed future cash settlements) than monetary assets during periods of inflation, thereby requiring less purchasing power to satisfy such future obligations. However, since this gain will not be realized until the obligations are repaid, it is excluded from net income.

FIVE-YEAR COMPARISON

The five-year comparison on page 24 shows the effect of adjusting historical net sales, dividends per common share and market price per common share to dollar amounts expressed in terms of average 1980 dollars, as measured by the average Consumer Price Index. After adjustment for inflation, net sales have increased 53% from 1976 through 1980, while dividends paid in 1980 are 47% and 49% of earnings per share when stated in constant dollar and current cost amounts, respectively In 1980 the increase in specific prices of inventories and property, plant and equipment was slightly greater than the increase in general inflation as measured by the Consumer Price Index. This excess was significantly less than that indicated for 1979. A year-to-year change in the calculation can occur since costs for agricultural commodities often do not follow the trend of general inflation. Comparisons of other amounts for years prior to 1979 were neither readily available nor required by Statement No 33

STATEMENT OF INCOME FROM OPERATIONS ADJUSTED FOR THE EFFECTS OF CHANGING PRICES

For the Year Ended December 31, 1980 (in thousands of dollars)

	As Reported in the Primary Statement	Adjusted for General Inflation	Adjusted for Changes in Specific Prices
	(historical dollars)	(constant dollar)	(current cost)
Net sales	$1,335,289	$1,335,289	$1,335,289
Cost of sales (excluding depreciation)	948,433	955,691	953,543
Selling, administrative and general expenses (excluding depreciation)	223,000	223,000	223,000
Depreciation expense	24,896	34,190	38,675
Interest expense—net	14,100	14,100	14,100
Income before taxes	124,860	108,308	105,971
Income taxes	62,805	62,805	62,805
Net income	$ 62,055	$ 45,503	$ 43,166
Effective tax rate	50.3%	58.0%	59.3%
Gain from decline of purchasing power of net amounts owed		$ 27,296	$ 27,296
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year (see Note)			$ 95,649
Effect of increase in general price level of inventories and property, plant and equipment			$ 95,470
Excess of increase in specific prices over increase in the general price level			$ 179

Note—At December 31, 1980 current cost of inventory was $206.6 million and current cost of property, plant and equipment, net of accumulated depreciation, was $670.7 million.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(in thousands of average 1980 dollars, except per share amounts)

	1980	1979	1978	1977	1976
Net sales					
As reported	**$1,335,289**	$1,161,295	$767,880	$671,227	$601,960
In constant dollars	**1,335,289**	1,318,342	969,871	912,721	871,342
Income from continuing operations					
As reported	**$ 62,055**	$ 53,504	$ 41,456	$ 36,031	$ 43,685
In constant dollars	**45,503**	44,696			
At current cost	**43,166**	48,521			
Income per share from continuing operations					
As reported	**$ 4.38**	$ 3.78	$ 3.02	$ 2.62	$ 3.18
In constant dollars	**3.21**	3.16			
At current cost	**3.05**	3.43			
Dividends per common share					
As reported	**$ 1.50**	$ 1.35	$ 1.225	$ 1.14	$ 1.03
In constant dollars	**1.50**	1.53	1.55	1.55	1.49
Market price per common share at year-end					
As reported	**$ 23.50**	$ 24 63	$ 20.63	$ 19.88	$ 22 38
In constant dollars	**22.45**	26.44	25.09	26.36	31.68
Net assets at year-end					
As reported	**$ 361,550**	$ 320,730	$284,389	$259,668	$233,529
In constant dollars	**564,135**	532,943			
At current cost	**755,388**	726,725			
Excess of increase in specific prices over increase in general price level	**$ 179**	$ 24,511			
Gain from decline in purchasing power of net amounts owed	**$ 27,296**	$ 30,186			
Average Consumer Price Index (1967 = 100)	**246.8**	217.4	195.4	181 5	170.5

RESOURCES PROVIDED FROM OPERATIONS

Resources provided from operations increased by 18% to $102.0 million primarily due to the higher net income levels. However, a portion of the increase since 1978 is also due to the higher depreciation, amortization and deferred taxes which have resulted from the acquisition of Friendly Ice Cream Corporation. Resources provided from operations over the past five years have been adequate to fund normal capital requirements and dividends.

CAPITAL ADDITIONS

Capital additions in 1980 amounted to $59.0 million compared with $56.4 million in 1979 and $37.4 million in 1978. Capitalized leases of $1.1 million in 1980 and $1.4 million in 1979 are included in the above amounts. Capital additions, including Friendly for 1979 and 1980, amounted to $201.1 million during the past five years.

The Restaurant Operations segment accounted for $24.5 million or 41% of the 1980 total spending compared with $21.0 million or 37% in 1979. Approximately 35% of the restaurant spending was for new restaurants with the majority of the remaining portion for modification of existing restaurants and other improvements.

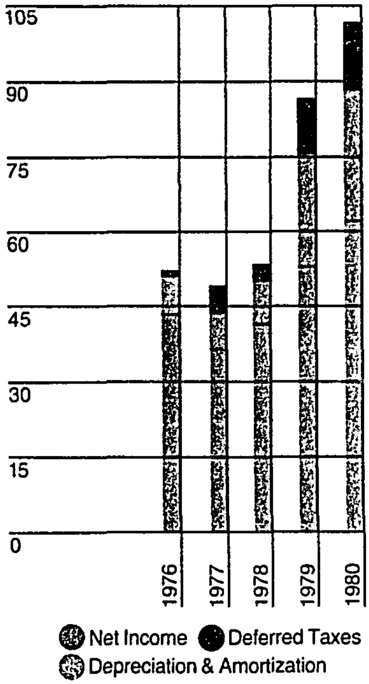
Chocolate and Confectionery segment expenditures amounted to $27.1 million or 46% of the 1980 total spending compared with $29.4 million or 52% in 1979 Major additions in 1980 included expansion of the Montreal Canada plant, completion of the pilot plant facility at the Technical Center, additional chocolate and cocoa processing machinery and expanded finished goods lines at the Hershey and Reese plants.

In 1980, the Hershey Chocolate Company began construction of a $75 million manufacturing facility in Stuarts Draft, Augusta County, Virginia. The 450,000 square foot structure will be used primarily to expand manufacture of the new products introduced in recent years by the Company. Additional product lines are being contemplated, and, if authorized, could increase the cost by $25 to $40 million. Expenditures through December 31, 1980 amounted to approximately $6.5 million.

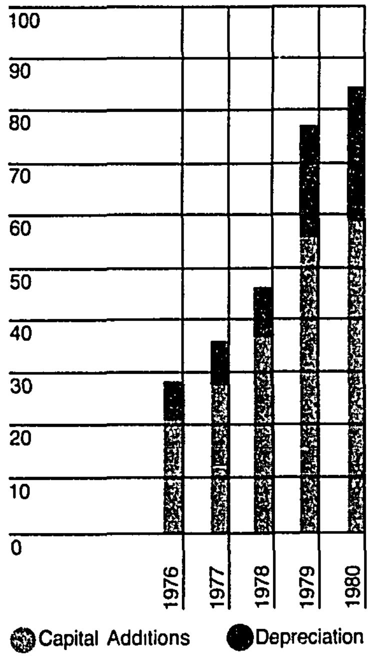
A warehouse addition and expansion of the Louisville plant constitutes the majority of the $6.1 million capital additions for Other Food Products and Services segment.

Depreciation expense and amortization of leasehold improvements and capitalized leases for 1980 through 1978 amounted to $24.9 million, $20.5 million, and $8.9 million, respectively.

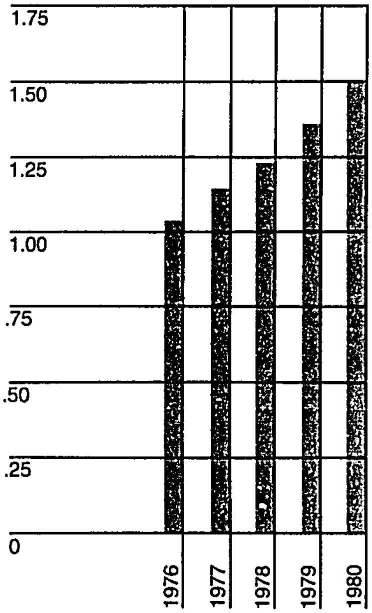
RESOURCES PROVIDED FROM OPERATIONS
(dollars in millions)



CAPITAL ADDITIONS AND DEPRECIATION
(dollars in millions)



DIVIDENDS PER COMMON SHARE
(dollars)



MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Company's common stock were $21.2 million in 1980 and $19.1 million in 1979. The annual dividend rate was increased 14% in 1980 to $1.60 per share from $1.40 per share in 1979. This represents the sixth consecutive year of dividend increases for the stockholders. On February 17, 1981 the Company declared a regular quarterly dividend of $.40 per share of common stock payable on March 13, to stockholders of record February 23. It is the Company's 205th consecutive regular dividend.

Hershey Foods Corporation common stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 1.5 million shares of the Company's common stock were traded on the Exchange during 1980. The closing price of the common stock on the New York Stock Exchange on December 31, 1980 was $23.50. The number of stockholders at December 31, 1980 was 17,774.

The following table shows the dividends paid per common share and the price range of the common stock for each quarter of the past two years.

		Dividends Paid Per Common Share	Common Stock Price Range* High	Low
COMMON STOCK				
1980	First Quarter	$ .35	$25\frac{3}{8}$	$20\frac{1}{4}$
	Second Quarter	.35	$25\frac{1}{8}$	20
	Third Quarter	.40	26	$23\frac{1}{2}$
	Fourth Quarter	.40	$25\frac{1}{4}$	22
		$1.50		
1979	First Quarter	$ .325	$21\frac{7}{8}$	$18\frac{1}{8}$
	Second Quarter	.325	20	$17\frac{3}{8}$
	Third Quarter	.35	$25\frac{1}{2}$	$19\frac{5}{8}$
	Fourth Quarter	.35	$26\frac{1}{2}$	22
		$1.35		

*NYSE Composite Quotations

SUMMARY OF QUARTERLY DATA (unaudited)

The following table presents net sales, gross profit, net income and net income per common share for each quarter of the past two years.

(in thousands of dollars except per share amounts)

Year 1980	First	Second	Third	Fourth	Year
Net sales	$331,759	$283,958	$343,993	$375,579	$1,335,289
Gross profit	82,961	77,343	94,221	109,050	363,575
Net income	$ 13,253	$ 11,743	$ 17,841	$ 19,218	$ 62,055
Net income per common share	$ 94	$ .83	$ 1.26	$ 1.35	$ 4.38

Year 1979	First	Second	Third	Fourth	Year
Net sales	$277,848	$249,939	$314,432	$319,076	$1,161,295
Gross profit	72,508	68,636	87,049	77,850	306,043
Net income	$ 12,352	$ 10,475	$ 17,410	$ 13,267	$ 53,504
Net income per common share	$ .87	$ .74	$ 1.23	$ .94	$ 3.78

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(in thousands of dollars except per share amounts)

	For the Years Ended December 31		
	1980	**1979**	**1978**
Net Sales	**$1,335,289**	$1,161,295	$ 767,880
Costs and Expenses:			
Cost of sales	**971,714**	855,252	560,137
Selling, administrative and general	**224,615**	184,186	128,520
Total costs and expenses	**1,196,329**	1,039,438	688,657
Income from Operations	**138,960**	121,857	79,223
Interest expense (income)—net (Note 1)	**14,100**	17,764	(2,683)
Income before Taxes	**124,860**	104,093	81,906
Provision for income taxes (Note 2)	**62,805**	50,589	40,450
Net Income	**62,055**	53,504	41,456
Retained Earnings at January 1	**304,316**	268,475	243,855
Adjustment for Pooled Company (Note 3)	**—**	1,444	—
Less—Cash Dividends	**21,240**	19,107	16,836
Retained Earnings at December 31	**$ 345,131**	$ 304,316	$ 268,475
Net Income per Common Share (Note 1)	**$ 4.38**	$ 3 78	$ 3 02
Cash Dividends per Common Share	**$ 1.50**	$ 1.35	$ 1.225

The accompanying notes are an integral part of these statements

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

	December 31	
	1980	1979
ASSETS		
Current Assets:		
Cash and short-term investments	**$ 48,906**	$ 17,185
Accounts receivable—trade (less allowances for doubtful accounts of $1,890 and $1,351)	**45,964**	37,423
Inventories (Note 1)	**113,701**	106,078
Other current assets	**12,796**	9,564
Total current assets	**221,367**	170,250
Property, Plant and Equipment, at cost:		
Land	**42,682**	40,610
Buildings	**139,611**	130,268
Machinery and equipment	**316,421**	275,630
Capitalized leases	**16,316**	16,237
	515,030	462,745
Less—accumulated depreciation and amortization	**135,589**	113,480
	379,441	349,265
Excess of Cost Over Net Assets of Businesses Acquired (Notes 1 and 3)	**55,214**	56,516
Investments and Other Assets	**28,450**	31,168
	$684,472	$607,199

	December 31	
	1980	1979
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	**$ 52,498**	$ 51,636
Accrued liabilities		
Payroll and other compensation costs	**20,566**	17,244
Other	**19,849**	18,964
	40,415	36,208
Accrued income taxes	**17,107**	7,546
Current portion of long-term debt and lease obligations	**1,640**	8,436
Total current liabilities	**111,660**	103,826
Long-Term Debt (Note 5)	**142,730**	127,886
Long-Term Lease Obligations (Note 7)	**16,028**	15,814
Deferred Income Taxes (Notes 1 and 2)	**52,504**	38,943
Stockholders' Equity		
Common stock, without par value (stated value $1 per share)—authorized 20,000,000 shares; outstanding 14,159,854 and 14,159,160 shares	**14,160**	14,159
Additional paid-in capital	**2,259**	2,255
Retained earnings	**345,131**	304,316
Total stockholders' equity	**361,550**	320,730
	$684,472	$607,199

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

	For the years ended December 31		
	1980	1979	1978
Financial Resources Provided			
Net income	**$ 62,055**	$ 53,504	$41,456
Depreciation and amortization	**26,378**	21,568	8,850
Deferred income taxes	**13,561**	11,283	3,764
Resources provided from operations	**101,994**	86,355	54,070
Increase in long-term debt	**15,000**	75,000	7,000
Disposals of property, plant and equipment	**4,393**	1,854	1,023
Other	**2,939**	(1,423)	(541)
Total resources provided	**124,326**	161,786	61,552
Financial Resources Applied			
Capital additions	**59,029**	56,437	37,425
Cash dividends	**21,240**	19,107	16,836
Increase in investments	**274**	8,710	2,200
Reduction in long-term debt	**500**	7,600	900
Acquisition of Friendly Ice Cream Corporation (net of working capital acquired of $18,248) represented by—			
Property, plant and equipment	**—**	141,494	—
Other assets	**—**	2,500	—
Long-term debt assumed	**—**	(38,031)	—
Excess of cost over net assets acquired	**—**	39,789	—
	—	145,752	—
Total resources applied	**81,043**	237,606	57,361
Increase (Decrease) In Working Capital	**$ 43,283**	$(75,820)	$ 4,191
Increase (Decrease) in Working Capital			
Cash and short-term investments	**$ 31,721**	$(94,571)	$(5,482)
Receivables	**8,541**	5,636	(3,969)
Inventories	**7,623**	40,467	3,661
Other current assets	**3,232**	2,059	1,247
Accounts payable	**(862)**	(7,940)	11,954
Accrued liabilities	**(4,207)**	(15,353)	(6,701)
Accrued income taxes	**(9,561)**	2,318	3,481
Current portion of long-term debt	**6,796**	(8,436)	—
Increase (Decrease) in Working Capital	**$ 43,283**	$(75,820)	$ 4,191

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions. The accounts and transactions of the Company's Canadian operations and foreign affiliates are translated in accordance with Financial Accounting Standards Board Statement No. 8. Charges and credits to income as a result of foreign currency translation were not material.

INVENTORIES

Substantially all of the Chocolate and Confectionery segment inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to $64,711,000 in 1980 and $60,088,000 in 1979. The remaining inventories are principally stated at the lower of "first-in, first-out" (FIFO) cost or market. Year-end inventories at FIFO costs, which approximates current cost, in thousands of dollars, consisted of:

	December 31 1980	1979
Raw materials	**$106,260**	$ 81,776
Goods in process	**30,230**	32,771
Finished goods	**81,338**	99,176
	217,828	213,723
Less: adjustment to LIFO method	**104,127**	107,645
	$113,701	$106,078

PROPERTY, PLANT AND EQUIPMENT.

The Company provides straight-line depreciation for buildings and machinery and equipment. Certain leases are capitalized at the present value of future minimum lease payments and are amortized using the straight-line method over the related lease terms.

EXCESS OF COST OVER NET ASSETS OF BUSINESSES ACQUIRED

The excess of the acquisition cost over the fair value of the net assets of businesses acquired is being amortized on a straight-line basis over a period of forty years. The excess relating to certain acquisitions made prior to November 1, 1970, is carried at cost until such time as there may be evidence of diminution.

DEVELOPMENT AND PROMOTION EXPENSES

The costs of research and development ($4,504,000 in 1980, $3,569,000 in 1979 and $2,786,000 in 1978) and advertising and promotion are expensed in the year incurred.

INCOME TAXES

The provision for Federal and state income taxes is based on income as reported in the financial statements Appropriate deferred income taxes are provided for the tax effect of timing differences resulting primarily from the use of accelerated depreciation for income tax purposes The provision for income taxes has been reduced by allowable investment tax credits.

EMPLOYEE BENEFITS

The Company has non-contributory retirement plans covering substantially all salaried and full-time hourly employees. Costs are computed and funded on the basis of accepted actuarial methods and include current service costs of all plans and the amortization of past service costs. Past service costs are amortized principally over a period of 30 years.

The Company has Savings and Stock Investment Plans for its employees. The Company contributions under these plans are used to purchase the Company's common stock at prevailing market prices. Such contributions amounted to $713,000 in 1980, $541,000 in 1979 and $221,000 for the six month period in 1978 that the plan was in effect.

NET INCOME PER COMMON SHARE

Net income per common share has been computed based on the weighted average number of shares of common stock outstanding during the year (14,159,801 in 1980, 14,152,955 in 1979 and 13,742,101 in 1978).

INTEREST EXPENSE

Interest expense-net is comprised of the following:

(in thousands of dollars)	**1980**	1979	1978
Interest on long-term debt	**$12,637**	$12,748	$ 2,620
Interest on capitalized leases	**1,413**	1,282	—
Other interest	**3,105**	6,275	—
Capitalized interest	**(958)**	(881)	—
	16,197	19,424	2,620
Less-Interest income	**2,097**	1,660	5,303
	$14,100	$17,764	$(2,683)

2. INCOME TAXES

The provision for income taxes exceeds taxes currently payable by $13,561,000 in 1980, $11,283,000 in 1979 and $3,764,000 in 1978, primarily because of the use of accelerated depreciation methods for income tax purposes. The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate.

	1980		1979		1978	
(in thousands of dollars)	**Amount**	**%**	Amount	%	Amount	%
Taxes computed at statutory rate	**$57,436**	**46.0**	$47,883	46.0	$39,315	48.0
Increase (reduction) resulting from:						
State income taxes, net of Federal income tax benefits	**5,522**	**4.4**	4,552	4.4	3,354	4.1
Investment tax credit	**(3,428)**	**(2.7)**	(3,680)	(3.5)	(2,008)	(2.4)
Nondeductible expenses relating to acquisitions	**2,567**	**2.1**	2,074	2.0	—	—
Other, net	**708**	**.5**	(240)	(.3)	(211)	(.3)
Provision for income taxes	**$62,805**	**50.3**	$50,589	48.6	$40,450	49.4

3. ACQUISITIONS

On January 3, 1979, the Company, in a pooling of interests transaction, acquired all of the outstanding shares of common stock of Skinner Macaroni Company in exchange for 398,680 shares of the Company's common stock. Consolidated Statements of Income and Retained Earnings and Changes in Financial Position for 1978 were not restated as the effect would not be material. The adjustment to Retained Earnings of $1,444,000 in 1979 represents the retained earnings of Skinner at January 1, 1979.

On January 18, 1979, the Company entered into a joint venture agreement in Brazil with S. A. Industrias Reunidas F. Matarazzo for an initial investment of approximately $7,500,000 representing a 40% equity interest.

Effective February 1979, the Company purchased substantially all of the outstanding common stock of Friendly Ice Cream Corporation for approximately $164,000,000. The excess of the acquisition cost over the fair value of the assets acquired and liabilities assumed was $39,789,000.

Had Friendly been acquired on January 1, 1978, the unaudited proforma combined results of operations for 1978 would have reflected net sales of approximately $986,000,000; net income of $43,000,000 and net income per common share of $3.13. Had the results of Friendly been included with the consolidated results of operations for the entire year for 1979 the effect would not have been material.

4. SHORT-TERM DEBT

As a result of seasonal working capital requirements, the Company maintained lines of credit arrangements with banks, under which it could borrow up to $150 million in 1980 and $105 million in 1979 at the lending banks' prime commercial interest rate or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Company. There were no borrowings under these lines of credit at December 31, 1980 or 1979.

The average outstanding short-term debt under both lines of credit and commercial paper during 1980 and 1979 was $28,851,000 and $66,326,000, respectively, with a weighted average interest rate of 10.7% and 11.8%, respectively. The average amount outstanding during the period was computed by dividing the sum of total daily borrowings by the number of days in the year. The weighted average interest rate during the period was computed by dividing the actual interest expense by the sum of the total daily borrowings converted to an annual rate. The maximum amount of short-term borrowings by the Company at any month-end was $73,609,000 in 1980 and $98,095,000 in 1979. There were no borrowings under lines of credit at any time during 1978.

These lines of credit are supported by commitment fee and/or compensating balance arrangements. The fees range from 3/8% to 1/2% per annum of the commitment. While there are no compensating balance agreements which legally restrict these funds, the Company generally maintains compensating balances of up to 5% of borrowings under these lines of credit and generally not less than 2.5% of commitments.

5. LONG-TERM DEBT

Long-term debt at December 31, 1980 and 1979 consisted of the following:

(in thousands of dollars)	**1980**	1979
10 3/4% Promissory Notes due 1983	**$ 15,000**	$ —
8.7% Senior Notes due 1992	**20,000**	20,000
7 1/4% Sinking Fund Debentures due 1997	**25,500**	27,000
Less Debentures repurchased	**(2,060)**	(3,060)
6 7/8% Industrial Revenue Bonds due 2000–2005	**4,000**	4,000
9 1/2% Sinking Fund Debentures due 2009	**75,000**	75,000
Other obligations	**5,290**	4,946
	$142,730	$127,886

On June 20, 1980, the Company through a private placement, issued $15,000,000 of 10 3/4% Promissory Notes with a maturity date of June 15, 1983. The proceeds from these notes are being used, on an interim basis, to finance the construction cost of a technical center and the purchase and renovation of an administrative office building.

Sinking Fund payments of $1,500,000 are presently required on the 7 1/4% Debentures. Annual payments of $2,000,000 begin in 1983 on the 8.7% Senior Notes Sinking Fund payments of $3,000,000 begin in 1985 for the 9 1/2% Debentures

The aggregate annual payments of long-term debt, net of repurchased debentures of $1,500,000 in 1981 and $560,000 in 1982 and exclusive of capitalized lease obligations for the succeeding five years are: 1981, $614,000; 1982, $1,535,000; 1983, $19,120,000, 1984, $3,894,000; 1985, $6,793,000.

6. RETIREMENT PLANS

The Company and its subsidiaries have several non-contributory pension plans covering substantially all salaried and full-time hourly employees. Pension expense was $10,440,000 in 1980, $8,469,000 in 1979 and $6,262,000 in 1978. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense, including amortization of past service cost principally over 30 years.

The accumulated plan benefit information and plan net assets for the Company's defined benefit plans based on December 31, 1979, the date of the most recent actuarial valuation, are:

(in thousands of dollars)	**1980**	1979
Actuarial present value of accumulated plan benefits:		
Vested	**$ 98,568**	$81,764
Non-vested	**4,699**	3,700
	$103,267	$85,464
Market value of net assets available for benefits	**$ 73,846**	$58,841

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was principally 8% for 1980 and 1979.

7. COMMITMENTS

Leased property which qualifies as capitalized leases relates primarily to the assets of Friendly.

Total rent expense for all other leases was $10,340,000 for 1980, $10,106,000 for 1979 and $3,812,000 for 1978. Other leases pertain principally to warehousing and transportation items.

Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1980 are as follows:

(in thousands of dollars)	Capital Leases	Other Leases
1981	$ 2,549	$ 3,518
1982	2,562	2,713
1983	2,450	2,132
1984	2,422	1,775
1985	2,359	1,428
1986 and beyond	18,249	6,926
Total minimum lease payments	$30,591	$18,492

The total minimum lease payments under capital leases include $12,847,000 of imputed interest.

In 1980 the Company began construction of a 450,000 square-foot chocolate and confectionery manufacturing facility in Stuarts Draft, Augusta County, Virginia. The cost of land, building and basic equipment is anticipated to be $75 million. Additional product lines are being contemplated, and, if authorized, could increase the cost approximately $25 to $40 million. Expenditures through December 31, 1980, amounted to approximately $6.5 million.

8. INDUSTRY SEGMENT AND EFFECTS OF CHANGING PRICES

Industry segment information and unaudited information regarding the effects of changing prices are shown on pages 18, 19, 23 and 24 of this report.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation management is responsible for the information and representations contained in this annual report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived Management believes its system provides this appropriate balance. The Company maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 28, 1980. Their report expresses an opinion as to whether the Company's financial statements are fairly stated in conformity with generally accepted accounting principles. The examination was performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

The Audit Committee of the Board of Directors of the Company, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors, and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

Vice Chairman and Chief Executive Officer

Vice President, Finance and Commodities

AUDITORS' REPORT

To the Stockholders and Board of Directors of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware corporation) and subsidiaries as of December 31, 1980, and 1979, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1980, and 1979, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis

New York, N.Y.
February 13, 1981.

Arthur Andersen & Co.

SIX-YEAR FINANCIAL SUMMARY

Hershey Foods Corporation and Subsidiaries

(all dollar and share amounts in thousands except market price and per share statistics)

	1980	1979	1978	1977	1976	1975
Summary of Earnings						
Continuing Operations						
Net Sales	**$1,335,289**	1,161,295	767,880	671,227	601,960	576,165
Cost of Sales	**$ 971,714**	855,252	560,137	489,802	417,673	413,134
Operating Expenses	**$ 224,615**	184,186	128,520	110,554	94,683	77,573
Interest Expense	**$ 16,197**	19,424	2,620	2,422	2,240	3,126
Interest Income	**$ 2,097**	1,660	5,303	2,931	1,883	1,862
Income Taxes	**$ 62,805**	50,589	40,450	35,349	45,562	43,292
Income from Continuing Operations	**$ 62,055**	53,504	41,456	36,031	43,685	40,902
Income (Loss) from Discontinued Operations	**$ —**	—	—	—	1,112	(1,457)
Gain (Loss) Related to Disposal of Discontinued Operations	**$ —**	—	—	5,300	—	(4,898)
Net Income	**$ 62,055**	53,504	41,456	41,331	44,797	34,547
Income Per Share of Common Stock						
Continuing Operations	**$ 4.38**	3.78	3.02	2.62	3.18	2.99
Discontinued Operations	**$ —**	—	—	—	.08	(.11)
Gain (Loss) Related to Disposal	**$ —**	—	—	.39	—	(.36)
Net Income	**$ 4.38**	3.78	3.02	3.01	3.26	2.52
Dividends Per—Common Share	**$ 1.50**	1.35	1.225	1.14	1.03	.85
Preferred Share	**$ —**	—	—	—	—	.60
Average Number of Common Shares and Equivalents Outstanding During the Year	**14,160**	14,153	13,742	13,722	13,720	13,698
Per Cent of Income from Continuing Operations to Sales	**4.6%**	4.6%	5.4%	5.4%	7.3%	7.1%
Financial Statistics						
Capital Additions	**$ 59,029**	56,437	37,425	27,535	20,722	10,542
Depreciation	**$ 24,896**	20,515	8,850	7,995	7,539	7,541
Advertising	**$ 42,684**	32,063	21,847	17,637	13,330	9,499
Current Assets	**$ 221,367**	170,250	216,659	221,202	169,872	157,579
Current Liabilities	**$ 111,660**	103,826	74,415	83,149	47,309	53,808
Working Capital	**$ 109,707**	66,424	142,244	138,053	122,563	103,771
Current Ratio	**2.0:1**	1.6:1	2.9:1	2.7:1	3.6:1	2.9:1
Long-Term Debt and Lease Obligations	**$ 158,758**	143,700	35,540	29,440	29,440	29,856
Debt-to-Equity Per Cent	**44%**	45%	13%	11%	13%	15%
Stockholders' Equity	**$ 361,550**	320,730	284,389	259,668	233,529	202,466
Stockholders' Data						
Outstanding Common Shares at Year-End	**14,160**	14,159	13,745	13,730	13,720	13,720
Market Price of Common Stock						
At Year-End	**$ 23 1/2**	24 5/8	20 5/8	19 7/8	22 3/8	18 5/8
Range During Year	**$ 26–20**	26 1/2–17 3/8	23 1/2–18 1/2	22 3/8–16 5/8	27 1/2–18 1/2	20 7/8–10 1/8
Number of Common Stockholders	**17,774**	18,417	18,735	19,694	20,421	19,686
Employees' Data						
Payrolls	**$ 253,297**	227,987	112,135	99,322	88,848	78,973
Number of Full-Time Employees—Year-End	**12,430**	11,700	8,100	7,660	7,670	7,580

directors and officers

BOARD OF DIRECTORS

Harold S. Mohler
Chairman of the Board

William E. C. Dearden
Vice Chairman of the Board and Chief Executive Officer

Richard T. Baker
Consultant and Former Managing Partner, Ernst & Whinney, certified public accountants

Robert J. Gaudrault
Chairman of the Board Friendly Ice Cream Corporation

John C. Jamison
Partner, Goldman, Sachs & Co., investment bankers, New York, N.Y.

Francine I. Neff
Vice President, Rio Grande Valley Bank, commercial bankers Albuquerque, N.M.

Philip A. Singleton
President Singleton Associates International, industrial consultants, Amherst, Mass.

Louis C. Smith
Vice President

Earl J. Spangler
President, Hershey Chocolate Company

John C Suerth
Director and Member, Executive Committee, Gerber Products Company, manufacturer of food and infant care products, Fremont, Mich.

Richard A. Zimmerman
President and Chief Operating Officer

AUDIT COMMITTEE

Richard T. Baker, *Chairman*
John C. Jamison
Francine I. Neff

COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE

John C. Suerth, *Chairman*
John C. Jamison
Philip A. Singleton

EMPLOYEE BENEFIT COMMITTEE

Philip A. Singleton, *Chairman*
Richard T. Baker
John C. Suerth

EXECUTIVE COMMITTEE

Harold S. Mohler, *Chairman*
William E. C. Dearden
Richard A. Zimmerman

NOMINATING COMMITTEE

Francine I. Neff, *Chairperson*
William E. C. Dearden
Harold S. Mohler

CORPORATE OFFICERS

Harold S. Mohler
Chairman of the Board

William E. C. Dearden
Vice Chairman of the Board and Chief Executive Officer

Richard A Zimmerman
President and Chief Operating Officer

Charles E. Duroni
Vice President and General Counsel

John S. Harkins
Vice President, Finance and Commodities

Dr. Ogden C Johnson
Vice President, Science and Technology

Richard M. Marcks
Vice President, International

William P. Noyes
Vice President, Human Resources

Louis C Smith
Vice President

Charles A. Smylie
Vice President, Administration

William F. Suhring
Vice President, Corporate Development

William Lehr, Jr
Secretary and Treasurer

Michael F. Pasquale
Controller

316

Hershey Foods Corporation
Hershey, Pennsylvania 17033, U.S.A.